

Timothy Naftali

I'm Timothy Naftali. I'm the Director of the Richard Nixon Presidential Library and Museum.

Frank Zarb

Nice to meet you.

Timothy Naftali

I'm honored to be here today with Frank Zarb, for the Richard Nixon Oral History Program. We're in New York City. It's, I believe, October 4, 2007. Thank you, Mr. Zarb, for joining us.

Frank Zarb

[Unintelligible]

Timothy Naftali

Let me ask you -- tell me about how you were recruited by Frank Malek for the Department of Labor.

Frank Zarb

It was a funny story, since I was working -- running a back office for a very small investment firm with Sandy Weill. I had a call one day from a guy who said, "I'm Fred Malek, and I work for the White House." And I said to him, "I'm not sure who you are, but you've got to be full of shit." That's exactly what I told him, and I started to hang up, and he said, "Don't hang up, call me back." So I called him back, and sure enough, it was the White House switchboard. And he had -- unclear, this point is unclear, but he had a copy of "Fortune" magazine, and "Fortune" magazine had done a story on a transaction that we, the firm, had done with Sandy Weill, and had a little piece on my work as running the inside of the transaction, the back office, and the consolidation. Malek called, and said the President, President Nixon, wanted a manager in each Cabinet agency since he was going to redo the Cabinet, and would I consider going to Washington and taking a job there, which to me, the son of an immigrant family, it was incredible to get a call from the White House. So I went to Washington. I met with Malek, and he introduced me to, then, Jim Hodgson, who was secretary of labor, and I was offered the job of assistant secretary of labor. All by surprise, I never did anything politically except register and vote. And that's how I got to Washington.

Timothy Naftali

What were your tasks?

Frank Zarb

It was assistant secretary of management of Labor for Management. It -- was running the infrastructure inside of the department. But the secretary wanted to redo all of the branches of the Department of Labor around the country and get that reorganized and cleaned up, and we did that. At the same time, we had to clean up behind the Great Society programs, the old Manpower programs that came out of the Johnson administration, where there was a lot of money thrown at these programs, and we had to go out and audit and clean up a lot of the mess. It was, as you might guess, a good deal of mis-accounting and low-level corruption as you throw all this money on the street. So that was part of it. But more than that we were preparing for rearrangement of the structure of the Cabinet, the Cabinet agencies, and Malek had recruited somebody like me, with my background, for all of the other government agencies as well, or the Cabinet agencies. So we were successful in getting that done. The Cabinet never was reorganized, because events caught up with the administration. But I did that job for about a year and a half, and then I had to return to New York, because the economics of being in government, I hadn't really calculated, and I had two young children, so we had to come back and take a real job.

Timothy Naftali

Before we bring you back to government, let me ask you a couple of questions about labor. You were there when they first started to implement the Philadelphia Pplan, something that the previous secretary of labor, George Shultz, had done.

Frank Zarb

That is correct.

Timothy Naftali

What were the challenges involved with that?

Frank Zarb

Well, the program people really did that. My part of the shop was to support them, and so I really didn't get deeply involved in that. It was at the same time the OSHA plan legislation had been completed, and that was being implemented, and so my job was really to support those parts of the agencies that were doing the program work.

Timothy Naftali

Which cities had the worst amount of manpower mismanagement as you remember?

Frank Zarb

I think the biggest cities had the biggest issues, where our auditors had to do a job in auditing and reassembling numbers that were hard to assemble. As you might guess that's where most of the money hit the ground, and we had to -- we had to clean that up. Elmer Staats was then the controller general, and I needed guidance and advice from a senior, and he was a senior, and I remember spending time

with him on this particular issue. And he would come in and audit me on the work, how well we did our work in auditing these programs. He told me in that first meeting with him that there were two big lies in government. The first lie is when his auditor comes in and says, "I'm here to help you." And the second lie is when my guy says to his auditor, "We're glad to see you."

Timothy Naftali

How did the unions react to the auditing of these programs?

Frank Zarb

Unions were mixed. They liked OSHA. We had the benefit of Jim Hodgson, who was a really good quality human being, and George Shultz, Schultz, who had been the secretary of labor and had a special relationship with labor. Very unusual during the Nixon period, which ultimately helped me later on when I had the energy job, because the relationship between organized labor and the government was quite good. And where you might think it was contrary, it was really quite good. And we had, in the Department of Labor, Bill Usery, who was in charge of mediation and those aspects of labor's program, and he came out of the labor movement, so he was a labor official. It was unique how unusual a relationship between the government and organized labor was at that particular moment in time.

Timothy Naftali

How do you account for that?

Frank Zarb

The people involved. I think the President, in picking people like George Shultz, I mean he had -- Nixon put together the best Cabinet in my lifetime. Now a lot of them went over into the Ford government, which is also equally -- equal in quality, if not better, but by far when you look at the human beings who were in those Cabinet agencies, I think the quality of leadership was just excellent, and as a result the organized labor, like other parts of our society, related well to it. And if it weren't for the events of Watergate, it would have gone down as one of the best Presidencies in our history.

Timothy Naftali

Can you tell us a story or two about James Hodgson?

Frank Zarb

Hodgson was just a quality guy, came out of, I think, Boeing, one of the aerospace companies. Excellent leader, very solid and even-tempered, cared a lot about the quality of the Labor Department's work, cared about OSHA, and things of that sort. It was unusual, because later on, in my OMB days with the Nixon government, we got into the Clean Air Act, and that was also pro -- I guess, these days, you would call it pro-green, and coming out of the Nixon government, it brought in a lot of allies. The quality of the Cabinet was outstanding.

Timothy Naftali

What brings you back? Yes? Tell us how you get back into government in '73. What brings you back?

Frank Zarb

Again, Malek, who called and said, "We have a problem in getting through a budget cycle, people have left government, and would you come back and give us a year at OMB?" So, I left my family in New York, and went to Washington to be associate director of OMB for management, and then on to become associate for one of the programs for the sciences, and the energy. So I agreed to do that, I left my family, went to Washington, took over that job. The President had closed a whole bunch of military bases, so my first task was to worry about that problem. It was all New England, and surprisingly, New England was the one sector of the country that did not vote heavily for Richard Nixon. So there were some implications that that had something to do with which bases were closed. The governors were outraged; political groups were outraged. So, it was my job to assemble all the Federal agencies, in each of these communities to bring as much aid to the transition of closing these bases as possible.

The mayor of Boston accused me one day of bringing crumbs from the Federal table. I had never met him before. I read that in the paper before I went to see him. I took some really burnt toast and crumbled it up, so the crumbs were in a napkin, and the first thing I did when I got to his office, I shook his hand and I gave him the crumbs, and that broke the ice. But we then -- we assembled, we organized OMB, and OMB organized the Federal agencies, all the Cabinet agencies, to be more in focus and on point to bring as much aid and assistance as we could to Massachusetts, to Maine, to Vermont. So, that was my first task, and as time went on, the energy crisis began to heat up. John Sawhill, who was the program associate for energy and the sciences, went over with Bill Simon to run the Federal Energy Agency. It was a Presidential appointed agency, to begin to cope with the front edges of the oil embargo. As he did, I moved over into the program job that John Sawhill had and worried about energy and the sciences from an OMB standpoint, and then, of course, the events of Watergate began to take hold. Paul O'Neill, who had the office next to me at OMB, used to walk in at night with the evening newspaper, then "The Washington Star," and commiserate together on the problems that were visiting the government because of Watergate.

It was also a time, because of the issues of those months of Watergate, where OMB virtually ran the government. And as I think back to why that happened, it was primarily because the Cabinet agencies didn't want to go to the White House. They didn't want to go to the political White House. So, ultimately, they default to OMB for guidance and direction. So, we were very, very, very busy, and I didn't realize it at the time, but we had an enormous amount of power. And I think probably the country was served well to have this kind of continuity of the management aspects of government. So Malek brought me back in for one year, and Watergate took place, Ford became President, the embargo came, and Ford asked me to stay for a little bit more time, which turned into another three years, to do the energy czar's job.

Timothy Naftali

Before we get to that, I was going to ask you about -- did John Volpe give you any advice about Massachusetts?

Frank Zarb

No, I don't -- I can't, at the moment, recollect, it was the mayor of Boston, the governor, whose name I would recall if it was mentioned, I just hadn't done my homework

for this interview. But we were able to restore some degree of confidence and trust, because OMB was on the job, and OMB had sort of a non-political reputation, and we had the clout to make sure that the Federal agencies delivered. So, regardless of the notion that Nixon did this because these were the states that didn't elect him, or re-elect him, there was enough concern, to make sure that we brought enough Federal resources to bear, so that the transition could be done with less impact.

Timothy Naftali

Now that this became an issue again, at the end of the Cold War. When you were doing this, providing assistance, retraining, what models did you use? How did you know what, basically, what promise to bring?

Frank Zarb

We had to look at what -- and each area had different and unique circumstances. If there were employment retraining programs, we would bring manpower programs, Department of Labor, to bear. HEW had a role to play; GSA had a major role to play, because there were lots of those Federal agency questions in place, in terms of real estate, in closing the bases. What happened to the real estate after the bases were closed were important. Were they directed toward industrial applications? So, we worked with the governors to make that determination, and more often than not they wanted jobs back, so they would opt for industrial type of development, which I thought was quite healthy. I think the real story is that the government worked -- the Federal Government and the state governments worked well together, even though there was this animosity.

Timothy Naftali

How is it that you were chosen to replace John Sawhill?

Frank Zarb

At OMB, I had moved into the program part of OMB, where all the sciences, Department of Interior, Department of Agriculture, reported to me. So, I worried about the budgets for all those agencies. That included whatever energy agency we had, so the new Federal Energy Agency that had been invented and Bill Simon took over, Sawhill worked with him, fell under my general OMB-type supervision. And when Ford took over, Sawhill and President Ford didn't get along. John had some really strong views as to energy steps, such as gasoline taxes. President Ford had a different way to approach the problem. They couldn't get along, so John was asked to step down, and that left a vacuum. There was a candidate ready to go. He was a labor, came out of the labor world. I've forgotten who he is, and during the pre-confirmation process, there were some problems, and it was pretty urgent, because we were dealing with price controls, which turns out not to be the highest point in the Nixon government, and quota controls, which the Congress jammed down our throat. We needed leadership, so I was convenient. I was there, in the White House, in OMB. And it was Rogers Morton, who was secretary of the Interior, and close to the President,

and I spent a lot of time together, and I think mostly due to Rogers Morton's intervention, they asked me to move on over and take over the energy job.

Timothy Naftali

Before that, let's go back to the Nixon period. First of all, let me ask you about William Simon. What was he like?

Frank Zarb

Tough, smart, high intelligence level, very focused, very intense, didn't suffer fools well, and in Washington that's a problem. And Simon and Roy Ash had something in common: neither one of them suffered fools well, and in Washington there is always a high ratio of fools, so that created political problems. But Bill had no problem calling me at 3:00 in the morning, if something occurred to him that needed to be dealt with. During my time at OMB, and he was doing the energy job, we would spend long nights together at his home. My family was still here at that stage, in New York, so I would stay at his home in Virginia. We'd stop and get a pizza on the way home, and we'd have a pizza very late at night, because they were heady days and lots of work to be done. He was a 24-hour a day guy. The turnover in his office for assistants was extraordinarily high, because he was just very, very demanding,

very demanding guy. But committed, and had some ironclad principles that he lived by day-in and day-out, some I thought were high quality, but some of them, a little too rigid. But Bill was Bill, and you took the good with the bad, and there was a lot of good.

Timothy Naftali

What was the effect of the friction between him and Ash, Roy Ash? Because there was a lot of friction between them.

Frank Zarb

There were, between him and Ash, and between him and Henry Kissinger. It would be -- it would visit itself in every aspect of working together. Of course, that got disassembled as soon as Ford became President. Ash went and Simon went. And the guy that we missed the most -- also that was George Shultz. He was really a -- he was a rock during the Nixon government. But it was disruptive, it was difficult that these guys were so strong-willed and couldn't find a common ground. And I don't think -- I think Nixon, had Watergate not occurred, would have fixed that himself because he knew it was an issue.

Timothy Naftali

But did you see him intervening, or was he just too distracted?

Frank Zarb

I think he became too distracted, but had he not, if Watergate wasn't a factor, I think he would have fixed that problem. My guess is he would have fixed it by asking some of these guys to leave.

Timothy Naftali

Let's talk about the solutions that this group came up with. Who came up with the idea of fuel allocation scheme?

Frank Zarb

That came out of the Congress, and that came out of, particularly, the New England delegation. We had price controls, which were not very useful, at a time when we had an embargo. So, you end up with price controls, and then product shortages. When you do that, there's -- you have to deal with it one way or another. Either the marketplace deals with it, which meant you would have had real disruptions. You get rid of price controls, which would have been the right answer, and let the market find an equilibrium, and that would have been an orderly way to do it. Congress was not about to allow price controls to go away. We got them to do it ultimately, but it took a long hard fight. But they came up with these quota controls. Interesting aspect of public policy in an emergency, the government, when it moves too fast in the face of crisis, always overreacts. And quota controls were overreacting. It gave the authority to, ultimately me, to determine who your fuel oil dealer was going to be. If you bought a new home, you had to come to one of my offices, and go through a bureaucracy, and we'd assign you a fuel oil dealer. And it was bizarre, and Congress insisted on my buying ration stamps. And no way in the world this country could go to rationing without huge economic and social disruptions. Nevertheless, Congress mandated that we --

Timothy Naftali

That's why you printed 15 million.

Frank Zarb

That's why we printed 15 million, and ultimately burned them.

Timothy Naftali

Is that what you did with them?

Frank Zarb

Actually, it was a funny story, because after I became the energy czar, an FBI agent came to see me, and said they caught a car thief, and in the car thieves' wallet was one of our ration stamps. So I hadn't realized where they were at that point. It had been so long, but I told our guys to get in one of the big public accounting firms, and let's do an audit of what we have before we burn them. And they came back and said they couldn't audit them because they weren't numbered. They forgot to number them when they printed them. It was a mess, so we just burned them. But you could see the Congress overreacted with quota controls, and we had to cope with it. We had to have an emergency agency, which we created overnight, which accounted employees from all other agencies. So, you could imagine, when the secretary of agriculture is asked to give up 100 employees, he's not going to give us his 100 stars. So it became a pretty sizable management question, but we got through it.

Timothy Naftali

Was the government close to actually implementing rationing?

Frank Zarb

No, the Congress was pushing it, at least in rhetoric, because it sounded like they were doing something. When we looked at it, we ran models. How would you -- start with the beginning, how would you distribute ration stamps? Cars in the family? How many cars you have, registrations? That means that the people with four cars would get more ration stamps than the guy with one car, who has to drive a much longer distance to go to work every day. Obviously that didn't work. If you give it just to drivers, if you have five drivers in the household compared to one, although the one needs it more than everybody else -- didn't work, just didn't work.

Timothy Naftali

North of the border, in Canada, they let the market clear.

Frank Zarb

Correct, right.

Timothy Naftali

There were no lines.

Frank Zarb

No price controls, no quota controls.

Timothy Naftali

There were no lines. Why didn't people say this is crazy? Why did people have to wait in the line in United States when they didn't have to wait in line in Canada?

Frank Zarb

Well, the Democratic Congress, the class of -- freshman class, 1970, I guess, or '74.

Timothy Naftali

'72.

Frank Zarb

'72, right, were a very liberal group of guys that thought they had some kind of mandate, and they didn't. I mean, they came in on the fumes of Watergate, and they didn't have a mandate, but they thought they did. They fought tooth and nail to maintain price controls because it was politically

popular for the left. For the center and the right, it was nuts. Democrats and the Republicans in the center all came to that same conclusion, but we didn't get enough votes, and we started to unwind them in '74, '75, going into '76, we started to unwind price controls one step at a time. Ford signed a bill which gave us, I think, a 40 month gradual decontrol. But it was, just, left wing politics that dug us a deeper hole. I can't say that they're the only ones to blame, because the conservatives took an extreme position, and therefore, there was no easy middle ground.

Timothy Naftali

Where did the idea for the coupons come from for refineries?

Frank Zarb

Coupons?

Timothy Naftali

Well, in other words, refineries, you had refineries were allowed a certain amount of oil, but some refineries didn't need that much.

Frank Zarb

It was our quota controls, and, you know, it was all done by us and ways to try and equalize it. It was really a very messy time because we were short of fuel, I don't remember where, in Florida, and hospitals were running low. There was a tanker on the way to New York, Port of New York, and we had the authority, and used it, to redirect that tanker to Florida. Now, you could imagine, government people making those kinds of decisions, what that did to the economy, so thankfully, the embargo, politically, was over. We got out of it because of that, but had the embargo lasted much longer something would have broken, and the only way out of it would have been to release price controls and eliminate quota controls.

Timothy Naftali

Do you remember people recommending to President Nixon to just get rid of price controls?

Frank Zarb

You know, I was so junior at that particular moment, I don't know. People like Paul O'Neill and I always believed that price controls were really bad, and the fact that they came out of a Republican administration was really annoying, but those price controls caused us a lot of pain.

Timothy Naftali

You participated in the meetings of the -- I guess, of the oil committee that was chaired by Henry Kissinger.

Frank Zarb

Yeah, Energy Policy Committee.

Timothy Naftali

Energy Policy Committee.

Frank Zarb

Yeah, I ultimately chaired it.

Timothy Naftali

Must have been amazing.

Frank Zarb

Energy Resources Council.

Timothy Naftali

It had Kissinger, Simon, Shultz, I believe, you. Who else was in that?

Frank Zarb

Ultimately, Seidmon, but that was after -- that was Ford. That's probably it -- Greenspan.

Timothy Naftali

Alan Greenspan?

Frank Zarb

Council of Economic Advisers.

Male Speaker

I'm sorry. We need to change the tape. And, we're rolling, go ahead.

Frank Zarb

I remember, my wife and I were in the car, and there was a bulletin that the President was imposing wage and price controls, and putting together this price commission and this wage commission. It was so un-Republican and un-free market that it was stunning, and all I could think of at that time, was that conditions must be so bad that people like George Shultz would be supporting this kind of a move. In any case, whatever reasoning, they did it, and I thought -- and I, today, think it was probably the single most important mistake in the Nixon government.

Timothy Naftali

But that's -- so it's the price controls that lead to the oil shortage.

Frank Zarb

It certainly contributed, the oil shortages were really created because of the oil embargo by A-OPEC, the Arab OPEC countries. They cut back materially, and that effected places in the country, East Coast and West Coast primarily, that were heavily reliant on oil. So, you had an uneven distribution. The price controls made it very difficult, because the market should have gone up when oil became short. That would have been an automatic conservation, and it would have encouraged oil companies to go and find more oil. But the prices were not allowed to go up, and as a result, to counter it, we had to put in quota controls, which Congress imposed, like, quick, because they liked that stuff, there was no pain, and they made believe that they were fixing the problem, and, of course, they made the problem worse. So price controls and quota controls, in response to the embargo, was not the right medicine.

Timothy Naftali

Was there any chance, at that point, of removing the oil import quotas? I mean, you had oil import.

Frank Zarb

Well, quotas became immaterial at that point.

Timothy Naftali

But I thought the Seven Sisters, though, the oil companies, didn't they work hard to try to redirect oil, so we ended up with more Venezuelan and Canadian oil?

Frank Zarb

Right, they did indeed, and they were partially successful. But the Congress was just -- so often is the case, when government responds to the crisis, and thinks it's going to run the crisis, it really mucks things up. They imposed pricing controls on oil -- new oil, old oil. So if you had an old oil well, you had to stay price controlled. If you found new oil, prices could go up a certain amount. Well you could imagine, oil is oil is oil, so the mixing and matching of new oil, old oil, and the potential scandals that came out of that mess. But it was just -- the right answer was price de-regulation. And I wrote a "Wall Street Journal" Op-Ed piece really campaigning for that, but Congress, the majority of Congress was a Democratic Congress, just wouldn't have any part of it.

Timothy Naftali

What was the Washington Energy Conference [unintelligible] ?

Frank Zarb

February --

Timothy Naftali

'74.

Frank Zarb

'74 -- we had a few. It was, first of all, to get some national consensus of things to do. Part of that came out of Rumsfeld, interestingly enough, who said that as the shortages took hold and caused grief, "We've got to make the American people feel like we're doing something and they're doing something," which is kind of a unique insight into it. From that came 55-mile-an-hour speed limit, ultimately, which I'll tell you a funny story about that -- and came the beginnings of the assemblance semblance of an energy policy. Project Independence was coined, because Richard Nixon, I guess, liked the political sound of Project Independence. It was not realistic to think that we could become energy independent. We had to become energy less reliant on insecure sources of fuel. So we went and moved in the direction of some of these measures.

I remember, I think it was the governor of Montana who was bitterly opposed to 55- mile-an-hour speed limit, because in his view, his citizens had to drive long distances to get from point A to point B. In New York and in Boston, we took rapid transit. So, his view was that we were -- it was a regional issue. And he told me that they were contemplating -- I don't know if -- I believe they did it, but I'm not sure -- they were contemplating passing a legislation in Montana, which said that if you got caught speeding, it was a five dollar fine, and then you were paid up for the year. So they were really outraged at some of these measures, but that came out of an analysis that said, we would save some fuel, we would save lives, and it made the American people feel like something was being done to counter all of this. There were those that argued that that was not a great measure. I think it was.

Timothy Naftali

Where did Rumsfeld make this suggestion, was he part of the energy committee?

Frank Zarb

He was chief of staff.

Timothy Naftali

Wasn't that not -- that's in the Ford?

Frank Zarb

All right, okay, it must have been early Ford. The story that I just told you was early Ford.

Timothy Naftali

Tell me, who was Admiral Reich?

Frank Zarb

Admiral Reich came over to manage the allocation system. The shortages were beginning to take hold. Simon was in the Treasury, but had kind of hijacked the energy policy issue, because it was also an economic policy issue, and he always competed with Kissinger who had his own things to do in that area. Reich came over, a retired admiral, and brought in a whole bunch of other military types. Well, you can imagine in a highly charged political atmosphere, with a lot to be done, we needed real management, across the board management, leadership, congressional relations. It was a disaster, and poor Admiral Reich got pasted. Simon was down on him in ten minutes, and so admiral left and I went over to help Simon. I worked at OMB in the daytime, and went over at night to work with Simon, to help with the allocation, get that all reorganized. That's how Simon got more and more imbedded into both deputy secretary of treasury, as well as the -- technically the energy czar in the early days.

Timothy Naftali

In his book, Henry Kissinger criticizes Simon, which is no surprise, for being naive about the Saudis. Simon was interacting with Sheikh Yamani.

Frank Zarb

I think that's a fair -- that was -- that's fair. We were here, trying to get a tough energy policy passed by the Congress, and Simon was, for whatever reason, taking kindly to the Saudis and to other Arabs of that variety -- oil-producing Arab states. There was a friction between Henry and Simon on that, along with a lot of other points. But there was a time when Simon had a reception for -- it may have been Yamani, the Saudi oil minister. I refused to go, because it was just inconsistent with what was going on in the world. They were here. They were hurting us with the embargo. But his view was different. Simon looked at the overall economic impact of recycling oil dollars, and thought that the U.S. would be better off creating this relationship rather than damaging it. Kissinger has different views, and I had different views because I was trying to get the Congress to pass tough energy legislation. I was trying to get things like nuclear power, and oil prices decontrolled, so it was some tough stuff.

Timothy Naftali

Tell us a bit about policy towards Iran. Do you remember that they were also both [unintelligible]?

Frank Zarb

Yeah, some of this happens during -- I get confused a little bit between Nixon and Ford, because to me Nixon and Ford all comes together; it was one big experience. Henry Kissinger went to see the Shah, and came back from his visit, and said that the Shah is willing to sell us oil at a discount to OPEC prices. It was a time when we needed oil. And then -- by then, it had become President Ford, but it was kind of the changeover period, Nixon/Ford. So it probably started during the Nixon months, and then went to early Ford. And Ford called me, and said he wanted me to look at this issue, and I looked at it. It didn't look like it made a lot of sense to me, but I went to Tehran. I met with the energy minister, who was also the finance minister at the time, I met with a bunch of oil people, and I met, then -- and back, we met in France. We met in the south of France. We met in Paris. We met in London. The Iranian delegation liked to be in places like that.

When it came down to the end, there were a couple of issues. When the American government buys something from another country, it must use American ships -- the Jones Act -- that increases materially the cost of shipping. So I finished running my numbers, actually turned out to be, like, a 50-cent- a-barrel premium, if we did the Kissinger deal. By then it was President Ford whom I reported to, and the President brought Kissinger in because Kissinger had a bigger picture in mind. He saw the alliance with the Shah being important, and if we could -- he could sell us his oil, and he could have American dollars, that was useful in his overall major strategy. But there was no way in the world that we were going to be able to get away with what he was thinking about. Ford called him into the office, and Kissinger came and Ford said, "Tell him what you told me," and I told Henry what the calculations were. Henry said to Ford, "What do you want to do, Mr. President?" The President said, "No discount, no deal." So Henry and I walked out of the Oval Office, and I'll never forget, he called me a nitpicking Talmudic scholar, because of the approach I took with this particular issue. That night, I called a good friend of mine in New York who is supposed to be Jewish and I asked him -- Kenny Biyakin [phonetic sp] -- I asked him, "Kenny, is that a good thing or a bad, thing that Henry called me today?" He said, "The scholar part and the Talmudic part is all right, but the rest is not so good." But Henry always had a bigger, four-steps-ahead view of the world.

Timothy Naftali

And he didn't go back to the Shah and ask for a better price?

Frank Zarb

No, it was impossible, they couldn't. Buying oil government to government, we would then have to buy the oil, then redistribute it through the oil companies, it became a political headache. As it was, I had to go up to the President, then Ford, when I told him I was concerned about the Congress getting wind of these negotiations, because it was not a usual thing for the U.S. government to go out and buy, particularly from the Shah of Iran. He set me up to see Scoop Jackson and John Dingell Dingle, my two oversight chairmen, both Democrats. To their credit, Scoop Jackson said, "We're doing exactly the right thing, and we'd have no problem with him or his colleagues." And Dingell Dingle said, "We're doing exactly the right thing, and if anybody in the House ever raised an issue tell them to go see him." But this is -- so we got air cover in the Congress, but it just was an idea that was not going to be workable.

Timothy Naftali

Tell me about the differences between working for Richard Nixon and working for Gerald Ford.

Frank Zarb

Little unfair, because Richard Nixon, I wasn't senior enough. I had just become -- as I got in the senior job in OMB, I spent more time in the Oval Office on budgets and stuff with Richard Nixon and got to know him. Obviously a very smart guy, and a very effective guy, and had a way of managing the world's affairs in a way that I thought was outstanding. So I had a lot of respect for the man. He was difficult, personally, in terms of making personal contact. I always got the view that he felt less easy than you felt, and for me with my background in the Oval Office, I always felt a little choked up. But I always got the feeling that he felt a little bit more uncomfortable than I felt uncomfortable, and I'm not exactly sure why that was. Ford, on the other hand was free, easy. I was just completely -- it was kind

of like having one of your friends that you worked with everyday, just a whole different -- whole different set of circumstances.

Timothy Naftali

When you were with the Energy Steering Committee, I know one of the objectives was to break the OPEC -- was to break OPEC if possible.

Frank Zarb

Which was unlikely to occur. One of the objectives was -- that was as bad as Project Independence. I mean there were over-promises, and it never even got traction, because, as you point out, Simon was talking a whole different approach, and there was really no way to break OPEC, or then, OAPEC, the Arab side. And the economists all predicted it was going to come apart on its own, because these antitrust type combinations always fell apart on their own. Well, they didn't figure on the fact that the Arabs had a different view of the world, and had their own economic books that they worked with.

Timothy Naftali

Tell me about your role in shaping the Energy Policy and Conservation Act of 1975, which was very important.

Frank Zarb

Well, that was very important, because we spent a lot of time in Camp David with the Cabinet, with people like Simon and Kissinger, his representatives. We spent a lot of time on measures to be taken, how do we get prices deregulated so that we can get controls finally off, what we do to produce more nuclear power, what we do -- more oil refineries, get into the outer-continental shelf for more drilling. So, it was the first time that the country -- probably the last time -- that the country did an honest job of saying, we want to reduce our imports from that part of the world by X barrels a day, and to get there we had to have the following measures for production of oil or alternatives, coal, nuclear, or conservation. So we had the -- both columns had to add up to the barrels a day that we were going to reduce imports from that -- unreliable parts of the world. It was a very complete, very comprehensive, fully supported by Simon, by Kissinger by -- I did most of the testimony on it, because it fell into my house, but they were completely supportive. We had no internal fights after we got this thing into the public domain.

We had problems with the Congress, who was very liberal in terms of what they -- didn't like the idea of more production. They didn't like the idea of nuclear power. They didn't like the idea that we were going to make it easier to site a nuclear power plant or a refinery. We weren't going to take away the environmental protections, but we were going to make a mandated timetable for these things to come to an end, so that, ultimately, decisions could be made. And then, Ford put a three dollar a barrel import tax in place, to kind of get the Congress' attention. That all kind of flowed together, and it all came out of the Nixon period, so that it flowed from one into the other. Paul O'Neill and I, one day, were called from our offices at OMB in the old executive office building, to go to the White House.

Male Speaker

Can you hold on for a second? This siren is really, really loud. Okay, I'm sorry.

Timothy Naftali

Please tell us the story.

Frank Zarb

So Paul and I were asked to go to the White House, and we were there with, I suspect it must have been sixty or so people in the room, and the President came out -- Richard Nixon came out with his family, and had tears in his eyes, and told us that he was going to resign. And I remember, for Paul and I, it was -- we walked over, and then we walked back. It was just a wrenching moment, and later that day we were back in the White House for the swearing in of Gerry Ford. But after Nixon's small resignation speech to his family in the White House, Ford walked him out of the White House to the helicopter, and we all stared in this eerie silence as this helicopter took off and took Nixon to California.

Timothy Naftali

Was it a surprise to you that that Nixon resigned?

Frank Zarb

You know, it got to be less and less of a surprise as time went on. It's amazing how, right up until a month before that, I remember Paul O'Neill coming into my office with "The Washington Star," the evening paper, with another Watergate thing and saying to me, "When is the man going to say something to deny this?" Or words to that effect -- maybe it was two months before. But by the time, you know, the tapes were beginning to leak out, and we got this redacted book of -- it began to begin to believe that a clock was running. But right up until almost the end, I mean, we just couldn't believe that this could be that kind of problem.

Timothy Naftali

People who are watching this live in an age where oil is roughly \$80 a barrel, and before the time this comes out it's \$100 a barrel. In your day, in that period, there was a sense that there was a relationship between inflation and oil prices that doesn't seem to exist anymore.

Frank Zarb

We had stagflation, and oil was a much more important factor in the economy. It was important for feedstock, for plastics, for everything. It's less of a factor -- the size of the economy is bigger -- less of a factor, so that we don't have, didn't have the inflation impact this last time around. I was on one of the Sunday morning talk shows, I think it was "Face the Nation," or one of those, and we talked about energy, energy policy, why we needed to have a tough energy policy for national security, and that how vulnerable we would be if we had a shortage of oil and we had -- the military needed to go into action. And came out of that period was the National Strategic Reserve we made, which I signed the first

contracts for, to get the salt domes to store oil for the military. The next day, the headline in one of the papers, "The Washington Post" or maybe "The New York Times," was that I predicted gasoline would go to a dollar a gallon. That was the headline, and that was the lead, after all the story about national security, and shortages, and what they could do to us. What the world couldn't believe, what our world couldn't believe, was that gasoline was about to be a dollar a gallon.

Timothy Naftali

Was it that we used oil less efficiently in 1973 and 1974 than we do now?

Frank Zarb

Oh, sure, I mean, the chromium-plated gunboats we called automobiles -- even though they're not as good as they could be, today, they are a lot, lot more efficient than they were in those days. Factories had to be retooled because as oil became more expensive, the economics drove the economy toward using fuel more efficiently. And frankly, the only real energy policy we have had since that time, has been the high price of oil that drives the search for alternatives, it drives -- One of the elements examined during the energy policy construction days, Nixon and Ford, was the notion of a floor price, whereby we would say to U.S. economy, oil is \$25 a barrel. It's going to go up a dollar a barrel in real terms, every year, for the next 20 years, no matter what. And the thinking there was that if the private sector could count on the fact that oil prices were not going to go down, they're going to go up, they'll make the capital investments for alternatives. That idea got -- was shot down at a Camp David meeting, because of the politics.

Timothy Naftali

By Ford or Nixon?

Frank Zarb

It was then -- by that time, it was Ford, but Kissinger heard it, and he kind of liked the tone of it, and the next week in Congress, he was testifying on something else. He raised the question on the floor price, and of course, the Congress just killed him -- the law landed on him. But when you really look back, it's that kind of a measure that needed to take place, because you would have investments in energy as energy prices went up, and then energy prices would come down, people would lose their investments. They weren't going to do that again. Even today, you're not going to get investments in solar energy to the extent that it could be a factor, unless people are convinced that oil's going to stay at some level, say \$80 a barrel, because they know they've been there before, and oil could be \$69 a barrel in two months.

Timothy Naftali

So it's a way of actually mandating long-term thinking.

Frank Zarb

In a free economy it's very hard to do, and you can't do it. I think that would have been very difficult, because we would have said that we would impose a tax to keep that price at that level. In our economy, it's very difficult.

Timothy Naftali

Are there some conservation measures that you wish had been taking that might have helped us by now?

Frank Zarb

In retrospect, because we couldn't get the Congress to do all the other hard things, I was opposed to a gasoline tax in those days. In retrospect, we should have imposed one, because had we said to the world, our world, that gasoline is going to go up 50 cents a gallon per year for the next five years, because we're going to add a tax, Detroit would have reshaped itself early to build more fuel-efficient cars. The American public would have been demanding more fuel-efficient cars. The Japanese wouldn't have gotten the foothold that they got in cleaning our clock in the automobile sector. As distasteful as it was, as I think back, that would have been a very positive measure. Now had the Congress given us our way and released price controls, we would have had an even better effect, but short of price controls, the gasoline tax was the only answer that could have gotten us to where we were.

Timothy Naftali

And do you remember the balance you tried to strike between green laws and energy?

Frank Zarb

Oh, sure, we had the Clean Air Act, which was important, and we had the Environmental Protection Agency, which was active. Russ Train was head of the Environmental Protection Agency, and he and I worked together the best we could. I did not push energy initiatives, which could do ecological damage and didn't produce enough energy. I stopped some dams that people wanted to build to create electric energy from dams because they didn't create enough electricity for the ecological damage. He, on the other hand, would look at measures so that we could have some relief over some period of time, on environmental restrictions in order to get a foothold in energy production. The unique political aspect of that period, and it was all through Nixon, was the fact that the Ralph Naders, and the consumer advocates, and the environmentalists got together, and, for example, stopped from -- did not support us in releasing prices, price control deregulation. You would think that environmentalists would love to have price controls removed, because prices would go up, we'd use less fuel. But they didn't, because the consumer guys supported the environmentalists on everything else they did. It was a political coming together that was not in the best interest of good public policy, but it was what it was.

Timothy Naftali

Do you remember any references that Nixon had for energy policy? Do you remember him intervening to push it in any direction?

Frank Zarb

Look, I think he -- I don't think he had enough time to take it seriously. He brought in Governor Love, and gave Governor Love no support. So, I think events just overtook him, and had he stayed in office, ultimately, he would have done what needed to be done.

Timothy Naftali

Did Governor Love have any preferences?

Frank Zarb

Governor Love had one assistant, Charlie DiBona, and three secretaries, and a little hole in the old Executive Office Building. He had no resources, had no authority. So, I don't recall anything coming out of that. There may have been, but I don't recall.

Timothy Naftali

How did you choose the extent of the emergency reserve? I mean, how many days, how do we have it?

Frank Zarb

We had calculated three months requirement or six months requirement. The Congress made us compromise to starting with three months. But my view, we should have a year's supply for the military, because if we were engaged in hostilities and we had an embargo, we needed to have that. Now, we had some limitations that exist today, because the salt domes are in locations of the country where you would have to move the oil to refineries, and then to where it was required. Some of those refineries were either heavy oil or light oil refineries, so there were some logistics issues, which I think the government has since fixed. It was the one really positive step that came out of that period, there were some other modest measures, but that was a very important one.

Timothy Naftali

Did you have enough authority as oil czar, fuel czar, energy czar from Ford?

Frank Zarb

I had too much authority as energy czar, and Congress would -- in its panic, during the embargo, the Congress would give me more authority than I wanted, and then try and force me to use it, because they wanted me to intervene more and more in the marketplace. They wanted me to intervene more and more with oil companies. And we had to strike a reasoned balance as being regulators, and at the same time not be so heavy handed that we actually disrupted, more than was natural, the flow of oil.

Timothy Naftali

Mr. Zarb, thank you for your time.

Frank Zarb

Good to see you.